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Stressed assets: Govt wants IBC relief for a dozen power projects

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The Centre, in its submission to the Allahabad High Court, could seek regulatory relief for a dozen power projects with an overall debt exposure of around Rs 1 trillion out of a total of 34 stressed assets.

Already under resolution plans, these stressed operational power plants include projects of GMR Energy, Essar Power and Rattan India, among others. The government has asked for an additional 180 days to resolve these stressed assets that have a total capacity of 12,000 Mw. A high-level empowered committee constituted by the Ministry of Power would identify the projects.

A committee, constituted by the government under a court directive, has categorised projects as resolved assets, admitted by or referred to the National Company Law Tribunal (NCLT), assets under construction and operational plants not yet referred to the NCLT. While NCLT will help resolve the first two categories of cases, assets under construction are not covered under the controversial February 12 notification.

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Sector concerns are holding back the power projects, which are operational and have not been referred to the NCLT, from realising their potential, the committee has noted in its 124-page report, reviewed by Business Standard. The report would be submitted to the Allahabad court soon.

“It needs to be recognised that power assets, especially operational projects, represent economic value for the nation and consumers. Therefore ‘one size fits all’ approach may not be the most suitable approach considering the varying degrees of complexity of the issues. A nuancing of approach, contingent upon unambiguous and reasonable categorisation may perhaps be warranted,” said the report.

The RBI’s new norms mandated banks to classify even one day’s delay in debt servicing as default. The notification mandates resolution proceedings against stressed accounts to be completed in 180 days.

IN THE RED

PROBABLE ASSETS	CAPACITY (Mw)	DEBT (₹Bn)	RESOLUTION STATUS
Jaypee Bara	1,980	109	NTPC tender
Ind Barath Utkal	700	301	Likely under Samadhan
KSK Mahanadi	2,400	172	PFC tender
GMR Raikheda	1,370	82	PFC tender
Essar Mahan	1,200	60	PFC tender
Rattan Power Nashik	1,350	71	Under PFC & Maha govt's consideration

Source: Ministries of finance, power

Following a petition filed last month by Independent Power Producers Association of India (IPPAI) in the Allahabad High Court against the February 12 notification of the RBI, the court had directed the finance ministry to hold a meeting with the stakeholders in the sector and work out a possible solution within a month.

Thereafter, the finance ministry held a meeting with stakeholders, along with officials of the ministries of coal and power and a RBI representative on June 21.

During the meeting, the ministry of power pointed out that the situation in the sector was unique. According to the ministry of power, while the electricity demand was growing at a pace slower than capacity addition, it was a temporary phenomenon and that the trend was "likely to correct very soon due to various initiatives of the government and steady growth of the economy".

The RBI, however, dismissed the argument saying the problem of power sector would take a long time to resolve. “The financial sector cannot ignore the stress on its books, in the interim. The mindset of acting only when there is prolonged default in payment has been one of the contributors to the

deterioration in banks’ asset quality,” according to RBI.

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The power ministry said higher than required capacity addition without tying up power purchase agreements with distribution companies along with issues such as coal supply and discom dues to generators have prevented some coal-based power plants from servicing their debt. In some cases, promoters were unable to infuse equity, resulting in tardy implementation of projects.

The power ministry has requested the RBI to increase the resolution period “considering that there are not too many buyers in the market given that all the stressed assets are approaching the market for restructuring/change in management.”

The RBI has taken a tough stance against the special dispensation to the power industry, pointing out that it would invite similar representations from other sectors and lead to litigation. According to the report, the banking regulator was of the view that the solution does not lie in “trying to mask the problem or compromising risk recognition and prudence”. While observing that it cannot ignore the “ground realities”, the RBI said, “Discussions with bankers indicate that six months is adequate time to restructure — bankers are familiar with the individual nuances of these exposures and have already restructured many of these in the past.”

The power ministry has suggested two schemes for resolution of stress in the sector — SAMADHAN from State Bank of India and Power Finance Corporation (PFC), two institutions with the highest exposure to the power sector, PARIWARTAN from Rural Electrification Corporation (REC) which has suggested setting up an ‘Asset Restructuring Company (ARC)’. SAMADHAN is about identifying ten assets and taking over ‘sustainable debt’ and then selling the asset to some ARC.

The RBI said that it was open to the REC’s idea of creating an asset restructuring company to take over the stressed power assets of banks. “The proposal should be premised on a ‘level playing field’ agnostic of public or private ownership, and based on transparent price discovery.” According to RBI, its regulations do not deter banks from lending to loss-making discoms for working capital, and rather ensure that lending against cash losses is classified “adversely and provided for”.